Year-End Charitable Giving Tips

With the holiday season upon us and the end of the year approaching, we pause to give thanks for our blessings and the people in our lives. It is also a time when charitable giving often comes to mind. The tax benefits associated with charitable giving could potentially enhance your ability to give and should be considered as part of your year-end tax planning. A great strategy is utilizing a donor-advised fund.

What is a donor-advised fund?

Technically, a donor-advised fund is an agreement between a donor and a host organization (the fund) that gives the donor the right to advise the fund on how the donor's contributions will be invested and how grants to charities (grantees) will be made. Contributions are tax deductible in the year they are paid to the fund, subject to certain IRS limitations. Though they can bear the donor's name, donor-advised funds are not operated as separate entities like private foundations are, but are merely accounts held by the fund.

How does a donor-advised fund work?

The donor establishes an account, names the account, and recommends an investment strategy. Then, the donor makes contributions of assets, which may include cash, marketable securities, and other types of assets, depending on the fund.

During life, the donor (or the donor's designee) can make ongoing, non-binding recommendations to the fund as to how much, when, and to which charities grants from the fund should be made. The donor may suggest that, upon death, grants be made to charities named in his or her will or other legal instrument such as a revocable living trust. Or, the donor may designate a surviving family member(s) to recommend grants.

Year-end Tax Planning

When making charitable gifts at the end of a year, you should consider them as part of your year-end tax planning. You generally want to time your recognition of income so that it will be taxed at the lowest rate possible, and time your deductible expenses so they can be claimed in years when you are in a higher tax bracket.

A donor can generally take an immediate income tax deduction for contributions of money or property to a donor-advised fund if the donor itemizes deductions on his or her federal income tax return. The amount of the deduction depends on several factors, including the amount of the contribution, the type of property donated, and the donor's adjusted gross income (AGI). Any amount that cannot be deducted in the current year can be carried over and deducted for up to five succeeding years.

Total Wealth Tip

Consider bunching several years' worth of annual charitable gifts into one year and completing a Roth conversion at the same time. Due to the 2018 income tax law changes many Americans are no longer itemizing, this type of strategy can take significant advantage of these changes.

The charitable planning strategies involved with this type of planning are complex and requires the guidance of a trusted and experienced advisor, such as a fee-only Certified Financial Planner™ (CFP®) and CPA, who plans comprehensively, and with a complete understanding of your particular concerns and goals in life. At Total Wealth Planning we focus on minimizing your tax liability over your lifetime and the next generation's lifetime.

For more information about the charitable planning strategies we utilize, please contact Rob Lemmons, CFP®, CPA, AIF at 513-984-6696.